

25 Sep, 2023

Newborn Town | 09911.HK

Better return on investment after adjustments

STOCK RATING

BUY

TARGET PRICE

HK\$ 3.73

Newborn Town (09911.HK) achieved RMB 1,374.6mn revenue in 2023 1H, which was nearly flat when compared to 2022 1H. And it recorded a surprising gross margin of 51.4%, bringing the Group a 22.0% net margin.

Profit-oriented business direction: Newborn Town (09911.HK) put its focus on profitability in 2023 1H, a series of policies were carried out to improve the profit margin, resulting in a 51.4% gross margin and a 22.0% net margin in 2023 1H. The Group i) formed a product mix in MICO for the content creators to showcase and assisted the creators to produce content aligned with Muslim culture through YoHo Academy, replacing the less effective streamers with the streamers providing higher marginal benefits, and ii) increased the adoption of external payment gateways, reducing the payment handling fee paid to Google and Apple. The improvement measures brought Newborn Town (09911.HK) an exciting profit margin which may be sustainable.

Introduction of new drivers:

- BlueCity:** BlueCity recorded a net gain after being acquired by Newborn Town (09911.HK), and BlueCity achieved a MAU of 7.3mn and 23.0% paying ratio for the first 6 months ended Jun 2023. The Group did improve the operation of BlueCity and it is assisting BlueCity in exploring the overseas market which was not able to conquer before the acquisition. The Group aims to help BlueCity replicate the success of MICO overseas, and break-even may be the primary target for overseas business before achieving a certain business scale.
- Innovative business:** The Group achieved a YoY 21.1% growth in the innovative business in 2023 1H, and it successfully launched 3 new games during the period, of which Mergeland realized USD 2mn monthly revenue in Apr 2023. The Group targets to launch 5 new games in 2 years, enriching the product portfolio and bringing the Group a decent income source.
- Social networking business:** The social networking business stagnated due to the adjustments. However, SUGO and TopTop realized 5x and 150% hyper-growth respectively even though their contribution remained immaterial.

Better return on investment after adjustments: Newborn Town (09911.HK) improved its profit margin to a level beyond our estimations, it shows its capability to increase the return of social networking APPs which profitability was limited, except MICO. Besides, thanks to the consolidation of BlueCity and the introduction of new products, the business scale will continue to grow at an exciting pace. We upward adjust our forecast by 49.2% - 67.3%, and we raise the TP to HKD 3.73/share, maintaining "BUY".

COMPANY UPDATE

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Newborn Town (09911.HK)

Stock Rating (Previous Rating) **BUY** (BUY)

Target Price (Previous TP) **HK\$ 3.73** (HK\$ 3.59)

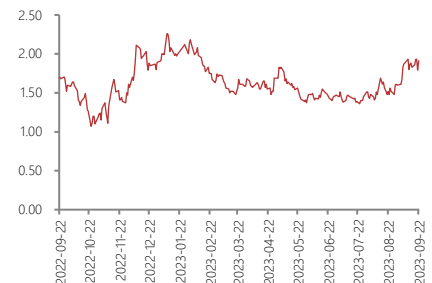
Current Price HK\$ 1.91

52-Week Range HK\$ 1.05 – 2.29

Market cap. (HKD, bn) HK\$ 2.3

RMB, mn	22(A)	23(E)	24(E)	25(E)
Revenue	2,799.7	3,576.3	4,884.9	5,252.8
Gross Profit	1,057.9	1,754.9	2,290.4	2,474.6
Gross Margin	37.8%	49.1%	46.9%	47.1%
Net Profit	287.3	463.3	559.9	632.3
EPS	0.114	0.231	0.281	0.334
P/S	0.7	0.6	0.4	0.4
P/E	14.4	7.4	6.1	5.1
ROE	27.7%	32.0%	28.4%	23.9%

Performance	1 mth	3 mth	6 mth	1 year
Absolute	25.7%	29.1%	22.4%	13.7%
Relative to HSI	24.2%	35.1%	30.3%	15.8%



Peers comparison

		Mkt. Cap.	P/E	Fw. P/E	P/B	P/S	Revenue	GM	ROE
		(HKD, mn)	(x)	(x)	(x)	(%)	(HKD, mn)	(%)	(%)
00302.HK	CMGE	3,798.7	-	-	0.6	1.2	3,160.2	41.0	(2.2)
00700.HK	Tencent	2,975,847.5	13.9	17.2	3.6	4.7	645,740.4	43.1	26.2
00799.HK	IGG	4,001.3	-	-	1.7	0.8	4,591.3	68.6	(25.4)
02100.HK	Baioo	847.5	24.2	5.5	0.4	0.7	1,093.1	38.4	1.8
02400.HK	XD Inc.	6,755.2	-	27.5	3.1	1.7	3,995.1	53.5	(3.8)
02660.HK	Zengame	3,049.2	3.2	-	1.4	1.3	2,058.1	64.4	49.1
03798.HK	Homeland	2,566.8	4.9	-	1.2	1.4	1,819.9	65.3	24.9
06633.HK	Qingci Games	3,359.9	64.8	9.9	1.8	5.0	734.0	67.0	2.9
06820.HK	FriendTimes	1,722.9	148.4	-	1.2	1.2	1,775.1	68.5	1.3
06933.HK	Sino Entertainment	102.3	-	-	0.5	31.0	14.3	(30.2)	(40.8)
09990.HK	Archosaur Games	2,062.4	-	-	0.8	2.9	679.2	72.5	(25.6)
09999.HK	NTES	515,961.7	-	16.3	-	-	112,363.2	54.7	23.8
	<i>Average - Gaming</i>	<i>293,339.6</i>	<i>43.3</i>	<i>15.3</i>	<i>1.5</i>	<i>4.7</i>	<i>64,835.3</i>	<i>50.6</i>	<i>2.7</i>
BMBL.US	Bumble	15,635.1	122.4	32.1	1.2	2.0	7,075.0	72.4	(5.3)
MTCH.US	Match Group	89,698.3	21.1	16.3	-	3.6	24,970.7	69.9	-
YALA.US	Yalla Group	6,265.9	10.6	-	1.6	2.6	2,377.4	62.5	19.6
MOMO.US	Hello Group	10,489.9	6.0	5.3	0.9	0.8	14,793.2	41.6	16.7
YY.US	Joyy	19,409.3	-	14.0	0.5	1.2	18,883.7	35.3	6.0
	<i>Average - Social Networking</i>	<i>28,299.7</i>	<i>40.0</i>	<i>16.9</i>	<i>1.0</i>	<i>2.0</i>	<i>13,620.0</i>	<i>56.3</i>	<i>9.3</i>
09911.HK	Newborn Town	2,275.2	8.8	6.4	2.3	0.7	3,260.1	37.8	25.9

Source: Bloomberg, West Bull Securities

Risk factors

- The paying ratio or ARPPU drops after a replacement of live streamers
- The overseas expansion of BlueCity is slow, leading to a loss to the overseas business
- The profitability of social networking APPs other than MICO remains low
- The new games launched by the Group do not meet the expectation

Financial Statement

PnL					Balance Sheet				
(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)	(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)
Revenue	2,799.7	3,576.3	4,884.9	5,252.8	PPE	122.2	140.8	150.0	160.9
<i>YoY growth</i>	<i>18.6%</i>	<i>27.7%</i>	<i>36.6%</i>	<i>7.5%</i>	Intangible assets	382.9	468.3	443.3	419.0
COGS	(1,741.8)	(1,821.4)	(2,594.5)	(2,778.2)	Others	238.5	142.5	195.5	237.1
Gross profit	1,057.9	1,754.9	2,290.4	2,474.6	Non-current assets	743.6	751.6	788.8	817.0
Other income	20.9	1.5	1.8	2.1	Inventories	-	-	-	-
Operating expenses	(809.5)	(1,226.3)	(1,652.0)	(1,753.5)	Trade receivables	164.9	225.7	319.3	356.2
Operating profit	269.3	530.1	640.2	723.1	Cash & cash equivalents	596.7	866.6	768.9	921.2
Finance expenses	(0.5)	(0.5)	(0.3)	(0.5)	Others	215.0	483.9	1,207.3	1,803.8
JV & Ass.	18.6	-	-	-	Current assets	976.6	1,576.2	2,295.5	3,081.2
Profit before tax	287.4	529.5	639.9	722.7	Total assets	1,720.2	2,327.8	3,084.3	3,898.2
Tax	(0.0)	(66.2)	(80.0)	(90.3)	LT borrowings	-	-	-	-
Net profit	287.3	463.3	559.9	632.3	Others	133.1	145.7	152.1	157.8
<i>YoY growth</i>	<i>N.A.</i>	<i>61.3%</i>	<i>20.8%</i>	<i>12.9%</i>	Non-current liabilities	133.1	145.7	152.1	157.8
					Trade payables	189.7	168.2	190.6	228.3
					ST borrowings	-	-	-	-
					Others	159.3	287.4	339.1	358.3
					Current liabilities	349.1	455.6	529.7	586.6
					Total liabilities	482.2	601.3	681.8	744.4
					Non-controlling interests	530.2	618.0	842.7	1,076.7
					Controlling interests	707.8	1,041.2	1,443.0	1,918.4
					Total equities	1,238.0	1,659.1	2,285.7	2,995.1

Cash Flow					Financial Ratio				
(RMB, mn)	2022 (A)	2023 (E)	2024 (E)	2025 (E)		2022 (A)	2023 (E)	2024 (E)	2025 (E)
Profit before tax	287.4	529.5	639.9	722.7	Gross margin	37.8%	49.1%	46.9%	47.1%
Finance expenses	-	-	-	-	Operating margin	9.6%	14.8%	13.1%	13.8%
Finance income	0.5	0.5	0.3	0.5	Net profit margin	10.3%	13.0%	11.5%	12.0%
D&A	59.6	53.0	47.0	47.9	Adj. EBITDA profit margin	13.4%	18.3%	15.8%	16.6%
Others	9.4	4.4	5.6	9.3	Return on Equity	27.7%	32.0%	28.4%	23.9%
Change in working capital	(44.2)	(223.2)	(144.8)	(78.2)	Return on Asset	17.2%	22.9%	20.7%	18.1%
CFO	312.6	364.4	548.0	702.2	Current ratio	279.8%	346.0%	433.4%	525.3%
					Quick ratio	277.6%	336.4%	422.9%	512.3%
CAPEX	(23.9)	(30.2)	(31.2)	(34.5)	Cash ratio	170.9%	190.2%	145.2%	157.0%
Others	(332.7)	(50.6)	(600.0)	(500.0)	Debt-to-Equity ratio	0.0%	0.0%	0.0%	0.0%
CFI	(356.6)	(80.8)	(631.2)	(534.5)	Net Debt-to-Equity ratio	-48.2%	-52.2%	-33.6%	-30.8%
					Inventory turnover days	-	-	-	-
Shares issuance	285.6	-	-	-	Receivable turnover days	25.1	24.0	23.5	26.5
Net borrowings	-	(0.0)	-	-	Payable turnover days	43.6	35.9	25.2	27.5
Interest paid	-	-	-	-					
Dividend paid	-	-	-	-					
Others	(425.2)	(13.6)	(14.5)	(15.4)					
CFF	(139.6)	(13.6)	(14.5)	(15.4)					
FCFE	(85.7)	334.1	516.8	667.6					
FCFF	(85.7)	334.1	516.8	667.6					

Source: Company data, West Bull Securities

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